



Higher Income Child Benefit Tax Charge

An illustration of how the tax charge affects families' ability to care for their own children.

A new tax trap for higher earners:

Take a family with three children, living in London. The father is a Head of Department at a secondary school earning £50k salary. The mother cares for their children at home.

He has been offered promotion as Deputy Head at another school a bit further away. He will have extra responsibility, his work hours will be longer, and he will have to travel further but he will be rewarded with an increase to his wage of an extra £10k. In practice however he will find that he brings home only £2,900 of that increase. If he is on Universal Credit he will only bring home £1400.

For every extra £1 earned he loses 71p in tax, NI and loss of child benefit. He keeps only a third of the extra value he is adding for the school.

Should his wife return to work instead she can earn the full £10k without paying tax, and they keep their child benefit. They will be significantly better off.

Individual income is not a good measure of how well off a family is.

This chart shows disposable income of the same family with 3 children living in Greater London N14 at different income points.

Families who rent have greater access to Universal Credit (in blue on table).

Families with mortgages do not.

Single earner families (SIF) lose their CB at 60k compared to £100k dual earner families (DIF)

Family with 3 children	12k	60k	60k	45k	45k	99k
	Single income family on 12k Greater London on UC	Single income family 60k on UC	Single income family 60k with mortgage	Double income family on 45k (25k/20k) renting in London on UC	Double income family on £45k (£25k/20k) with mortgage	Double income family on 99k (£44.5 each) with mortgage
Tax		952	952	330	330	1064
NI	0	305	305	198	198	638
Net Earnings per month	1000	3654	3654	3218	3218	5713
Employment support allowance						
Standard allowance	579	579	0	579	0	0
Child element	539	539	0	539	0	0
Housing element	1600	1600	0	1600	0	0
Council tax support	90		0		0	0
Reduction due to earning	-341.55	-1801		-1562		
Child benefit	241.8	0	0	241.8	241.8	241.8
Total Disposable Income per month	£ 3,708	£ 4,571	£ 3,654	£ 4,374	£ 3,460	£ 5,955
Childcare allowance not calculated for this illustration https://www.betteroffcalculator.co.uk/calculator/new/step4						

Equivalisation – measurement used to work out how well off a family is:

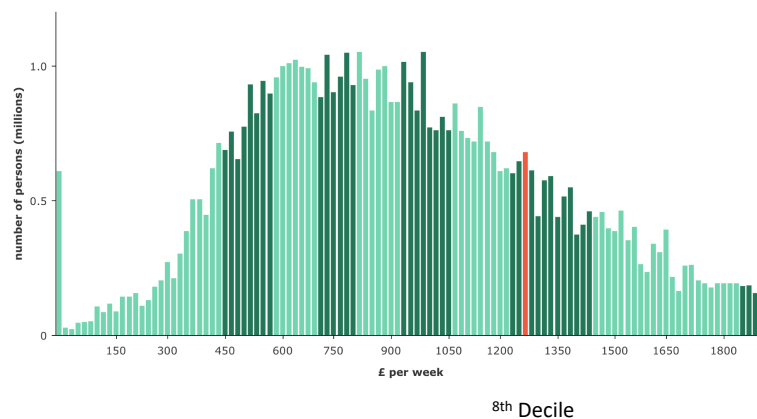
The income that a household needs to attain a given standard of living depends on its size and composition. So, to compare your household income with that of the rest of the population, we first need to know the number of adults and dependent children living in your household.

You input your net income after tax, NI and include any benefits, credits.

Include Council Tax – housing costs vary widely across UK

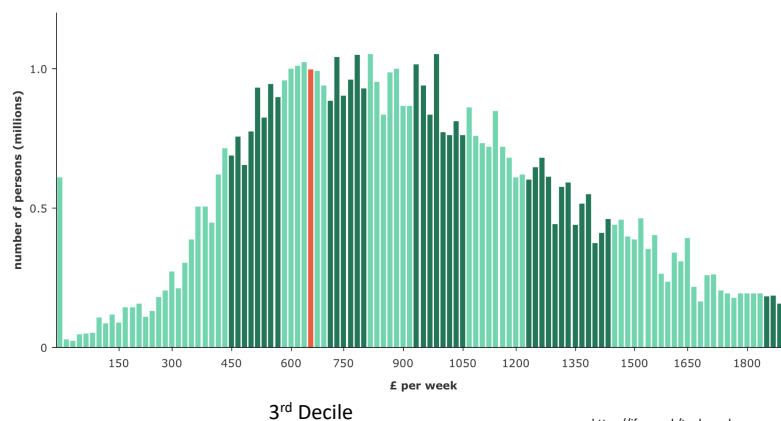
Family with 3 children with 2 earners on £45k each:

With a household after tax income of £1276 per week, you have a higher income than around 72% of the population - equivalent to about 47.5 million individuals.



Family with 3 children on £50k gross:

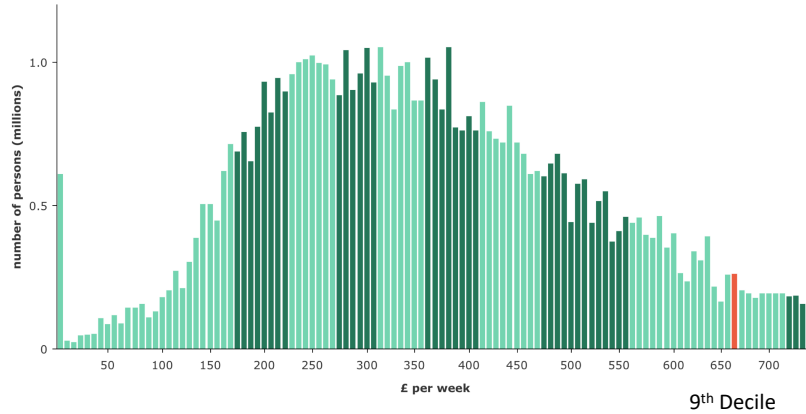
With a household after tax income of £666 per week, you have a higher income than around 25% of the population - equivalent to about 16.5 million individuals.



https://ifs.org.uk/tools_and_resources/where_do_you_fit_in?income=3700&form%5Bperiod%5D=yearly#tool-results-section

Single adult on £50k gross:

With a household after tax income of £666 per week, you have a higher income than around 87% of the population - equivalent to about 57.4 million individuals.



Impact on households:

distributional analysis to accompany Spring Statement 2022

Table 2.A: Median gross income for each decile (£ per year, 2021-22) for different household compositions:

Median gross income of households in decile	1 adult	1 adult and 1 child	2 adults	2 adults and 1 child	2 adults and 2 children
Top decile	69,700	-	104,100	142,500	174,300
Ninth decile	46,500	-	68,900	90,400	112,100
Eighth decile	37,700	-	55,100	73,000	90,300
Seventh decile	31,300	43,400	45,900	59,500	74,500
Sixth decile	26,600	36,200	39,000	52,100	61,400
Fifth decile	22,200	29,300	32,900	44,200	52,200
Fourth decile	18,500	23,700	28,100	36,700	44,700
Third decile	15,600	21,000	23,700	31,500	36,200
Second decile	12,700	17,100	19,700	25,100	29,100
Bottom decile	9,500	12,600	14,500	17,400	20,600

Source: HM Treasury distributional analysis model